Adhikar Microfinance Pvt Ltd

May 27, 2020

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	140.00 (enhanced from Rs. 50.00)	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Reaffirmed
Total	**140.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Adhikar Microfinance private Limited (AMPL) continues to derive comfort from its long presence in microfinance segment guided by an experienced and professional management, comfortable capital adequacy ratio, comfortable liquidity profile, stable asset quality and stable financial performance till February, 2020. However, these rating strengths are continues to remain constrained by monoline nature of its operations with relatively risky borrower segment, small scale of its operations, leveraged capital structure, geographical concentration risk and exposure to regulatory risks & socio-political risks inherent in the industry.

Key Rating Sensitivities:

Upward Factor

- Significant growth in operations with improvement in profitability and improvement in asset under management
- Improvement in the capital structure and debt protection metrics
- Improvement in liquidity

Downward factor

- Dip in scale of operations and/or decline in profitability with more than expected increase in credit cost
- Deterioration in the asset quality
- Moderation in the capital structure
- Inability of the company to arrange funds required for envisaged growth

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced and professional management team with adequate systems and processes**

AMPL is managed by eight-directors governing body headed by Mr. Mohammed Nooruddin Amin (CMD). All the governing body members are well versed with the intricacies of the microfinance operations. The day to day affairs is handled by Mr. Amin having more than two decades of experience in the MFI sector. AMPL has installed good tracking and MIS systems, which are adequate to support future growth expansion and helps to maintain asset quality.

- **Long presence in the microfinance segment**

The company has an established presence in the MFI segment with its long track record of operations of more than two decades in the sector. On the back of its established and long presence the company has managed to receive equity support from DiaVikas Capital Limited (DVCL), a subsidiary of Australia based global microfinance and enterprise development impact investor – Opportunity International, and also received funding from SIDBI in the form of long tenured preference shares (6 years to maturity) and subordinated debt of Rs.8 Crore from Capital First Limited as on September 30, 2019.

- **Comfortable capital adequacy ratio**

AMPL has maintained a healthy capital adequacy ratio (CAR) over the years. As on February 29, 2020, CAR was healthy at 28.88% (31.23% as on September 30, 2019).

- **Stable asset quality**

AMPL has managed to keep its collection efficiency ~99% in the last three financial years despite turmoil in the domestic MFI sector. AMPL though remain exposed to risks associated with the MFI business able to maintain a stable asset quality backed by its strong loan monitoring and adequate credit appraisal process. The portfolio at risk greater than 30 days (PAR>30 days) was also low at 0.59% as on March 31, 2019 though moderated marginally from 0.37% as on March 31, 2018. The GNPA stood at 0.44% and NNPA is about nil as on March 31, 2019. The company’s ability to maintain the asset quality in the new originations, and maintain field discipline will be important from a credit perspective.

- **Comfortable liquidity profile**

Liquidity position of AMPL, as on February 29, 2020 has been comfortable with positive cumulative mismatches in the short term (upto 1 year) bucket.

- **Growth in total income albeit moderation in profitability**

AMPL's total operating income increased from Rs.28.78 crore in FY18 to Rs.40.16 crore in FY19 driven by increase in interest income backed by increase in owned loan portfolio (~ Rs. 121 crore as on March 31, 2019 as compared to ~Rs.110 crore as on March 31, 2018) along with increase in commission income from Rs.5.42 crore in FY18 to Rs.8.82 crore in FY19 on the back of increase in managed portfolio (increased from ~Rs.68 crore in Mar'18 to ~Rs.122 crore in Mar'19). However, net spread and NIM deteriorated in FY19 due to increase in capital cost during FY19. Moreover, with moderation in NIM coupled with increase in operating expenses (Cost to Income ratio moderated from 65.69% to 79.58%) ROTA deteriorated from 2.92% in FY18 to 1.96% in FY19. The overall ability of the company to maintain good profitability indicators over cycles and diversify its earnings by venturing into other products/asset classes will be important from a credit perspective. During 11MFY20, the company has achieved, a PAT of Rs.2.79 crore on total operating income of Rs.37.51 (Provisional) with a ROTA of 1.93%.

Key Rating Weaknesses

- **Monoline nature of operations; relatively risky borrower segment and regulatory risks & socio-political risks inherent in the industry**

AMPL's product diversification remains low being concentrated only in the microfinance segment. The microfinance industry is prone to socio-political and operational risks, which could negatively impact the company's operations and thus its financial position. Further, unsecured lending to the marginal borrower profile and the political & operational risks associated with microfinance lending may result in high volatility in the asset quality indicators. AMPL's ability to maintain the asset quality indicators through economic cycles remains a key rating monitorable.

- **Small scale of operations and leveraged capital structure**

The scale of operations of AMPL remained modest with a loan portfolio of Rs.243.16 crore as on March 31, 2019. Further, the same has reduced to Rs.182.32 crore as on Sept. 30, 2019 due to cautious effort by the management to reduce its book size and reduce its gearing level. The company had a gearing at 6.73x as on March 31, 2019. However, the company's capitalisation profile witnessed an improvement in the overall gearing to 4.72 times as on September 30, 2019 driven by repayment of some high cost debt during the period.

- **Geographical concentration risk**

AMPL's operations are concentrated majorly in the state of Odisha. One state concentration exposes the AMPL to high geographical concentration risk. However, in order to diversify its operations, the company has started its operations in other states like West Bengal, Assam, Chhattisgarh. However, one state concentration exposes the AMPL to high geographical concentration risk. As on September 30, 2019, AMPL is operating in 85 branches, among which majorly in Odisha and few are distributed in other states as mentioned above.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Financial institution/NBFCs

Financial Ratios & Interpretation (Financial Sector)

Liquidity- Adequate

The company had adequate liquidity in the form of unencumbered cash and liquid balances of Rs.11.75 crore, as on February 29, 2020. As the advances comprise relatively shorter-tenure microfinance loans compared to the tenure of the borrowed funds, the asset liability maturity profile remains adequate. While Infomerics expects the company to meet its debt obligations in a timely manner, given the cash-in-hand and expected inflow from loan repayments (~Rs. 8.50-9.00 crore), it would be important for AMPL to maintain its collection efficiency while ensuring the regular flow of funds to meet its internal growth projections.

About the Company

Adhikar Microfinance Pvt. Ltd (AMPL) was incorporated in 1997 by one Mohammed Nooruddin Amin to initiate a Micro Finance activity. However, since 1993, he already had formed a society, namely "Adhikar" and was in microfinance activities. Later, during March 2008, the full portfolio of "Adhikar" has been transferred to AMPL. Currently AMPL is registered as Non-Banking Finance Company – Microfinance Institution (NBFC-MFI) and provides microfinance service to women oriented Joint Liability Groups (JLG). The company covers 5 states in India, namely, Odisha, Assam, West Bengal, Gujarat and Chhattisgarh with largest base in Odisha. The company covers mostly all districts of Odisha. The company has total 85 branches across these states. Beside direct lending, the company entered into a partnership to work as a Business Correspondence (BC) with various banks and financial institutions. Currently, the operations of the company are managed by Mr. Amin (CMD), along with other seven directors and a team of experienced personnel.

Despite of nationwide lockdown due to Covid-19 pandemic, the operation of the company is running optimally. Most of its branches remained open with adhering government guidelines and the collection are taking through digital mode .

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	28.78	40.16
PAT	3.43	3.11
Tangible Net worth	17.80	21.34
Total Asset	145.67	171.12
Ratios		
ROTA (%)	2.92%	1.96%
Interest Coverage (times)	1.34x	1.21x
Total CAR (%)	21.36%	22.88%
Gross NPA (%)	0.40%	0.44%
Net NPA (%)	0.00%	0.00%

Status of non-cooperation with previous CRA: INC from Acuite as per press release dated April 15, 2020 on account of non availability of data from client for annual review.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	140.00	IVR BBB-/Stable	IVR BBB-/Stable (January 20, 2020)	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company’s long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits - Term Loan	-	-	Feb 2025	140.00	IVR BBB- /Stable